

PHUMELELA LOCAL MUNICIPALITY (FS 195) DRAFT ANNUAL BUDGET



2015/2016 TO 2017/2018 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

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Abbreviations and Acronyms

BSC:	Budget Steering Committee
CFO:	Chief Financial Officer
MM:	Municipal Manager
CPI:	Consumer Price Index
DBSA:	Development Bank of South Africa
DoRA:	Division of Revenue Act
DWA:	Department of Water Affairs
FBS:	Free basic services
FMG:	Financial Management Grant
GRAP:	General Recognised Accounting Practice
HR:	Human Resources
IDP:	Integrated Development Strategy
IT:	Information Technology
kℓ:	kilolitre
km:	kilometre
KPA:	Key Performance Area
KPI:	Key Performance Indicator
kWh:	kilowatt
ℓ:	litre
LED:	Local Economic Development
MFMA:	Municipal Financial Management Act
MIG:	Municipal Infrastructure Grant
MPRA:	Municipal Properties Rates Act
MSA:	Municipal Systems Act
MSIG:	Municipal Systems Improvement Grant
MTREF:	Medium-term Revenue and Expenditure Framework
NERSA:	National Electricity Regulator South Africa
NGO:	Non-Governmental organisations
NKPIs:	National Key Performance Indicators
NT:	National Treasury
OHS:	Occupational Health and Safety
PMS:	Performance Management System
PPE:	Property Plant and Equipment
RBIG:	Regional Bulk Infrastructure Grant
SALGA:	South African Local Government Association
SALGBC:	South African Local Government Bargaining Council
SDBIP:	Service Delivery Budget Implementation Plan

1.1 MAYOR'S REPORT

The report by the Honourable Mayor: Cllr TJ Motaung will be included after delivering his budget speech on the 29 May 2015.

1.2 COUNCIL RESOLUTIONS

ITEM

RE: PRESENTATION AND TABLING OF THE DRAFT 2015/2016 CAPITAL AND OPERATING BUDGET AND IDP DOCUMENT

RESOLVED

- That council notes the 2015/16 Reviewed Integrated Development Plan
- That council notes the annual operating and capital budget of the municipality for the 2015/2016 MTREF and the two projected outer years 2016/2017 and 2017/2018 as set out in the following tables:
 - Table A1 – Budget Summary
 - Table A2 – Budgeted Financial Performance (revenue and expenditure by standard classification)
 - Table A3 – Budgeted Financial Performance (revenue and expenditure by municipal vote)
 - Table A4 – Budgeted Financial Performance (revenue and expenditure)
 - Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding
 - Table A6 – Budgeted Financial Position
 - Table A7 – Budgeted Cash flows
 - Table A8 – Cash backed reserves/accumulated surplus reconciliation
 - Table A9 – Asset Management
 - Table A10 – Basic Service delivery measurement
- That Council notes the budget related policies as reviewed by administration

The reviewed policies are as follows:

- Property Rates Policy
- Tariff Policy
- Indigent Policy
- Credit Control and Debt Collection Policy
- Supply Chain Management Policy
- Bank and Investment Policy
- Budget and Virements Policy
- Debt impairment Policy
- Accounting policies
- That council notes the new tariffs for the different services and rates and taxes to be implemented as from the 1 July 2015 as outlined on Annexure A (The increases are as follows:
 - Property Rates 6 % (2015/16), 6% (2016/17), 6% (2017/18)
 - Water 4.8% (2015/16), 5.9% (2016/17), 5.6% (2017/18)
 - Sanitation 4.8% (2015/16), 5.9% (2016/17), 5.6% (2017/18)
 - Refuse 4.8% (2015/16), 5.9% (2016/17), 5.6% (2017/18)
 - Electricity 12.2% (2015/16), 12.2% (2016/17), 12.2% (2017/18)
- That council take notice that the measurable performance objectives must still be determined for the budget year 2015/2016
- That council notes that the SDBIP will be tabled within 28 days after the approval of the budget, its related schedules and annexures.

Signed by.....
CLLR T.J. MOTAUNG (MAYOR)

.....
DATE

1.3 EXECUTIVE SUMMARY

1.3.1 Background

This draft budget of Phumelela Local Municipality is compiled in accordance with prescribed legislative frameworks for the MTREF that is due to start on the 1 July 2015 to June 2018. According to section 16(2) of the MFMA, read together with section 215 of the constitution, the Mayor should at least 90 days before the beginning of every financial year table an annual budget for consultation to Council. This budget is, therefore, tabled to Council for consultation as operating and capital budget of the municipality for the financial year 2015/2016 and for the two projected outer years (2016/2017 and 2017/2018). This budget is thus tabled as a draft pending amendments as may be necessary following consultations with the local community and other relevant stakeholders as required by section 23 of the MFMA.

Section 24 of the MFMA requires that, the municipal council must at least 30 days before the start of the New Year consider the approval of the annual budget. This budget will be approved by the municipal council on/before the 29 May 2015 after incorporating public comments and amendments effected. This document was prepared with serious consideration of the local socio-economic scene and the continuous increase in unemployment and poor standard of living in our community. The municipality must thus, make initiatives to combat the challenges of poverty, unemployment and inequality through enhancement of projects that will encourage local economic development and other employment creation initiatives to improve lives of its community.

The municipality's cash flow trend is not good; this is due to poor debtors' collection and creditors' control. The community has been encouraged to come forth and register as indigents, as and if they qualify in accordance with the set criteria. This will help the municipality in cash forecasting and budget for realisable goals. Despite the current cash flow challenges, we are striving to improve the current status of service delivery through implementation of various cost saving methods and controls.

The Office of Budget and Treasury under the auspices of the CFO shall oversee the whole budgeting process, budget implementation and the monitoring thereof. All sections are advised to start saving costs in performing their duties yet maximising their performance. The following are some of the most overspending expenditure votes that should be seriously controlled: telephone, travel and subsistence, overtime, print and stationery. Every employee of the municipality shall take the ownership of this document and ensure maximum service delivery through implementation of the IDP priorities as set.

The municipality continues to provide for free basic water, electricity, sanitation and refuse-removal services but only to indigents and up-to a set benchmark. For the 2015/2016 MTREF, the indicative allocations for 2016/17 and 2017/18 have been calculated taking into account provisions of circular 75 of the MFMA issued on the 9th March 2015. Electricity bulk price increases of 14.24 percent, CPI forecast of 4.8 percent in 2015/2016 and 5.9 percent in 2016/17 and 5.6 percent in 2017/18 as well as household growth in line with the period between 2001 and 2011. These variables will be updated in future budgets to reflect any changes in the growth in prices and/or change in affordability of our communities.

1.3.2 Overview

The application of sound financial management principles for the compilation of PLM's financial plan is essential and critical to ensure that PLM remains financially viable and that municipal services are provided sustainably, economically and equitably to all its communities. PLM's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. This exercise has resulted in shift from the surplus of R 2 764 173 to the surplus of R579 921 for the first financial year of the MTREF. The PLM has also introduced strategic measures to encourage consumers to pay their arrear debt.

National Treasury's MFMA Circular No. 74 and 75 were used to guide the compilation of the 2015/2016 MTREF. The main challenges experienced during the compilation of the 2015/2016 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, sanitation, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the given income base;
- The increased cost of electricity (due to tariff increases introduced by NERSA). This is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable as there will be a point where services will no longer be affordable; and
- Salary increases for municipal staffs that continue to exceed consumer inflation, as well as the need to fill critical vacancies.

The following budget principles and guidelines directly informed the compilation of the 2015/2016 MTREF:

- The 2014/2015 Mid-year Budget Performance Report priorities and targets, as well as the base line allocations contained in the budget were adopted where applicable as the upper limits for the new baselines for the 2015/2016 annual budget;
- Current service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Where tariffs were increased, affordability and the inflation rate as measured by the CPI were considered, price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity were also considered. In addition, MFMA Circular 74 and 75 were also considered. In these Circulars municipalities are urged to move towards tariffs that are cost reflective, and take into account the need to address infrastructure backlogs;
- There will be no amounts budgeted for national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- An upper limit was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
 - Special Projects (bursary fund, learnership, etc.) – The budget for bursaries is limited to those already awarded
 - Consultant Fees – This is limited to existing contracts as well as where the municipality does not have the necessary skills.
 - Furniture and office equipment (inventory) - The budget for these is limited to the requirements for new positions and existing staff that do not have furniture
 - Special Events (disaster management, farmers' support);
 - Refreshments and entertainment;
 - Subsistence and Travelling – The budget for this has been centralised in the Municipal Managers office, and all travelling is pre-authorised by him.
 - Overtime – The budget for this item is meant for extreme cases, where no alternative is available

In view of the executive summary, the following table is a consolidated overview of the 2015/2016 Medium-Term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2015/2016 MTREF

Description	BUDGET 2014/2015	BUDGET 2015/2016	BUDGET +1 2016/2017	BUDGET +2 2017/2018
Operating Revenue	109 885 727	150 533 963	152 644 765	156 891 685
Operating Expenditure	107 121 554	149 954 042	161 468 826	154 72 351
Surplus/(Deficit)	2 764 173	579 921	(8 824 061)	2 189 333
Capital Expenditure	70 746 000	47 967 000	53 574 000	60 750 000

Total operating expenditure for the 2015/2016 financial year has been appropriated at R149.9m and translates into a budgeted surplus of R0.58m. When compared to the 2014/2015, operating surplus is anticipated to decline by 71 percent in the 2015/2016. The operating surplus for the two outer years slightly decreases to a deficit of R8.8m in 2016/17 and a surplus of R2.19m is projected for 2017/18, which shows our commitment to service delivery.

The capital budget of R 47.467m for 2015/2016 is 22.2 percent less when compared to the 2014/2015 Budget. The decrease is due to the decline in funding from the national government for 2015/16. The capital programme slightly increases to R53.574m in the 2016/2017 financial year and then a further increase in 2017/2018 to R60.750m. All of these projects (100 percent) of the capital budget will be funded from government grants namely, the Municipal Infrastructure Grant Regional Bulk Infrastructure Grant, and the Integrated National Electrification Grant. Other projects are not reflected on our budget as they fall within the scope of provincial and national government programmes

1.3.3 Operating revenue and expenditure framework

For PLM to continue improving the quality of services provided to its residents it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the PLM and continued economic development;
- Efficient revenue management, which aims to eventually achieve an 85 percent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the PLM.
- The municipality's adopted financial recovery plan

Table 2: The following table is a summary of the 2015/2016 MTREF (classified by main revenue and expenditure source):

FS195 Phumelela - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand	1										
Revenue By Source											
Property rates	2	6 075	7 483	7 799	7 886	7 802	7 802	–	22 493	23 821	25 154
Property rates - penalties & collection charges		–	–	–	–	–	–	–	–	–	–
Service charges - electricity revenue	2	6 506	6 797	7 062	13 785	7 724	7 724	–	6 456	6 837	7 219
Service charges - water revenue	2	7 247	4 166	5 692	6 533	8 794	8 794	–	15 847	16 782	17 722
Service charges - sanitation revenue	2	5 171	5 642	7 032	7 145	7 145	7 145	–	15 732	16 660	17 593
Service charges - refuse revenue	2	5 054	5 987	6 869	5 814	6 019	6 019	–	15 662	16 586	17 514
Service charges - other		–	–	–	–	–	–	–	–	–	–
Rental of facilities and equipment		1 299	602	990	1 393	1 291	1 291	–	1 928	2 042	2 156
Interest earned - external investments		896	672	546	543	232	232	–	222	235	248
Interest earned - outstanding debtors		2 697	3 539	6 507	574	9 856	9 856	–	5 717	6 054	6 393
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines		96	108	64	67	66	66	–	66	70	74
Licences and permits		29	17	17	23	23	23	–	18	19	20
Agency services		–	–	–	–	–	–	–	–	–	–
Transfers recognised - operational		53 117	59 449	59 290	63 099	62 266	62 266	–	64 898	61 992	61 117
Other revenue	2	7 204	490	721	3 024	663	663	–	1 496	1 453	1 579
Gains on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		95 391	94 951	102 590	109 886	111 879	111 879	–	150 534	152 549	156 790
Expenditure By Type											
Employee related costs	2	28 048	44 482	47 037	51 529	48 821	48 821	–	53 227	55 414	58 504
Remuneration of councillors		4 221	4 447	4 549	5 190	4 623	4 623	–	4 220	4 474	4 742
Debt impairment	3	20 012	16 929	21 784	–	–	–	–	6 314	6 686	7 060
Depreciation & asset impairment	2	27 058	26 377	20 396	–	–	–	–	6 376	6 752	7 130
Finance charges		1 187	2 027	2 862	208	1 500	1 500	–	891	944	997
Bulk purchases	2	16 106	17 602	18 164	15 619	17 706	17 706	–	20 521	21 732	22 949
Other materials	8	–	–	–	–	–	–	–	–	–	–
Contracted services		2 470	8 176	9 148	4 200	4 187	4 187	–	3 500	3 707	3 914
Transfers and grants		–	–	–	–	–	–	–	–	–	–
Other expenditure	4, 5	26 153	30 013	25 633	30 375	35 033	35 033	–	54 905	61 665	49 305
Loss on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Total Expenditure		125 255	150 053	149 573	107 121	111 871	111 871	–	149 954	161 373	154 601
Surplus/(Deficit)		(29 863)	(55 102)	(46 983)	2 765	9	9	–	580	(8 824)	2 189
Transfers recognised - capital		30 085	60 474	48 745	–	–	–	–	–	–	–
Contributions recognised - capital	6	–	–	–	–	–	–	–	–	–	–
Contributed assets		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
Taxation		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after taxation		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
Attributable to minorities		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) attributable to municipality		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
Share of surplus/ (deficit) of associate	7	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfer and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit. Revenue generated from rates and service charges forms a significant part of the revenue base of the PLM. Rates and service charge revenues comprise just above half of the total revenue mix.

In the 2015/2016 financial year, revenue from rates and services charges totalled R78.5m or 52 percent of the operating revenue. This increases to R83.148m and R87.804m in the respective financial years of the MTREF; this will be achieved through robust implementation of debt collection and credit control policy. A notable trend of continuous increase in the total percentage revenue is envisaged to be generated from rates and services charges. This growth can be mainly attributed to an increase in the number of farms that are to be billed. The above table takes into account revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

The PLM's expenditure framework for the 2015/2016 budget and MTREF is informed by the following:

- Repairs and maintenance backlogs;
- Balancing the budget (operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any deficit);

- Funding of the budget over the medium term as informed by Section 18 and 19 of the MFMA;
- The capital programme and backlog eradication; and
- Funding the capital budget and other core services by operational gains and efficiencies.

The budgeted allocation for employee related costs for the 2015/2016 financial year totals R53.09m, which equals 35 percent of the total operating expenditure. Based on the MFMA circular 75 (in the absence of the collective SAGBC agreement), salaries have been budgeted at a rate of 4.4 percent for the 2015/2016 and annual increase of 6.15 and 5.85 percent in the two outer years of the MTREF respectively. Please note that these costs are the combination of salaries, social contributions and allowances. As part of the PLM's cost reprioritization and cash management strategy, vacancies have been significantly restructured. Most vacancies of critical and strategic positions were filled and that were not filled were also taken into account when this budget was compiled. In addition, expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration and allowances of councillors were determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, no. 20 of 1998. This expenditure item is curbed at R4.3m representing 3 percent of the operating budget. In compiling the salary budget for Councillors, an increase was provided based on the most recent proclamation (Gazette No. 38608) which was issued on 25th March 2015.

Finance charges consist primarily of the repayment of interest (cost of capital) on long term annuity loans and the recently raised finance lease to acquire vehicles. This interest makes up 0.6 percent (R0.891m) of the operating expenditure excluding annual redemption for 2015/2016 and increases to R0.996m by 2017/2018.

Bulk purchases are directly informed by the purchase of electricity from Eskom and Department of Water Affairs. The annual price increases have been accounted for in the budget appropriations and directly inform the revenue provisions. The expenditure includes distribution losses resulting from illegal connections, faulty meters and tempering. Bulk purchases are budgeted at R17m and R3.5m for electricity and water respectively which totals to 13.7 percent of the overall operating expenditure.

Contracted services have been identified as a cost saving area for the PLM. As part of the compilation of the 2015/2016 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. Contracted services constitute only R3.5m representing 2.3 percent of the total operating expenditure.

Other expenditure comprises of repairs and maintenance, operational provisions and various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved and is budgeted at R31.3m or 20.9 percent of the operating budget

Operating grants and transfers totals R64.8m in the 2015/2016 financial year, and decreases to R61.9m by 2016/17 and R61.1m in 2017/2018.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the PLM. National Treasury continues to encourage municipalities to ensure that rates, tariffs and other charges are cost-reflective yet keeping increases as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 percent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increase of Eskom bulk tariffs is far beyond the mentioned inflation target. Given that, these tariff increases are determined by external agencies, the impact they have on the municipality's electricity tariffs are largely outside the control of the PLM. Discounting the impact of these price increases by lowering consumer tariffs will erode the PLM's future financial position and viability.

It must also be appreciated that the inflation, as measured by consumer price index (CPI), is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc. The current challenge facing the PLM is managing the gap between these cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

1.3.5 Capital expenditure

Table 3: Detailed capital budget per individual project

Funding Agent	Project Description	Status	Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
MIG	PMU		1 039 800,00	1 056 700,00	1 106 700,00
MIG	Vrede/Thembalihle Exl: Upgrading of the sports facility.Ph 3	Retention	210 000,00	1 562 533,68	
MIG	Zamani: 2ML Reservoir rising main & pumpstation	Retention	365 941,60	-	-
MIG	Thembalihle: Construction of 2km paved road	Retention	712 500,00	290 355,81	-
MIG	Ezenzeleni/Warden: Construction of 1.5km paved road and storm water (MIS:221571)	Retention	410 000,00	5 303 493,67	562 455,53
MIG	Zamani/Memel: Construction of 2km Paved Road	Not Registered	9 160 000,00	9 907 750,52	5 936 249,48
MIG	Ezenzeleni /Warden: Upgrading of Sports Facility	Not Registered	3 119 000,00	1 531 516,32	3 320 100,00
MIG	Installation of Water meters in Phumelela	Not Registered	1 220 424,78	1 000 000,00	10 606 094,99
MIG	Reservoir and Pipeline in Thembalihle Ext 4	Not Registered	4 229 333,62	-	-
MIG	Trading Services Other		-	481 650,00	602 400,00
DOE	Upgrading of Rural Electricity lines in Ezenzeleni		7 600 000,00	5 000 000,00	10 000 000,00
DWA	Construction of the Dam in Warden		20 000 000,00	27 440 000,00	28 616 000,00
			48 067 000,00	53 574 000,00	60 750 000,00

In 2015/2016 an amount of R47.967m has been appropriated for the development of infrastructure around the three units of the municipality. An amount equal to R20.4m of the overall funding of these projects will be received from MIG, R 7.5m from DOE, R20.m from RBIG. Water infrastructure receives the highest allocation of R20.8m equalling 53.8 percent of the total capital budget.

1.4 ANNUAL BUDGET TABLES- PARENT MUNICIPALITY

The following pages present the ten main budget tables as required in terms of regulation 8 of the Municipal Budget and Reporting Regulations-Part 2 regulation 6. These tables set out the municipality's 2015/2016 budget and MTREF as tabled to the Council. Each table is accompanied by explanatory notes.

Table 4 (Table A1) – Budget Summary

FS195 Phumelela - Table A1 Budget Summary

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousands										
<u>Financial Performance</u>										
Property rates	6 075	7 483	7 799	7 886	7 802	7 802	–	22 493	23 821	25 154
Service charges	23 978	22 592	26 656	33 277	29 682	29 682	–	53 696	56 864	60 048
Investment revenue	896	672	546	543	232	232	–	222	235	248
Transfers recognised - operational	53 117	59 449	59 290	63 099	62 266	62 266	–	64 898	61 992	61 117
Other own revenue	11 325	4 755	8 299	5 081	11 898	11 898	–	9 225	9 637	10 222
Total Revenue (excluding capital transfers and contributions)	95 391	94 951	102 590	109 886	111 879	111 879	–	150 534	152 549	156 790
Employee costs	28 048	44 482	47 037	51 529	48 821	48 821	–	53 227	55 414	58 504
Remuneration of councillors	4 221	4 447	4 549	5 190	4 623	4 623	–	4 220	4 474	4 742
Depreciation & asset impairment	27 058	26 377	20 396	–	–	–	–	6 376	6 752	7 130
Finance charges	1 187	2 027	2 862	208	1 500	1 500	–	891	944	997
Materials and bulk purchases	16 106	17 602	18 164	15 619	17 706	17 706	–	20 521	21 732	22 949
Transfers and grants	–	–	–	–	–	–	–	–	–	–
Other expenditure	48 635	55 118	56 565	34 575	39 220	39 220	–	64 718	72 058	60 279
Total Expenditure	125 255	150 053	149 573	107 121	111 871	111 871	–	149 954	161 373	154 601
Surplus/(Deficit)	(29 863)	(55 102)	(46 983)	2 765	9	9	–	580	(8 824)	2 189
Transfers recognised - capital	30 085	60 474	48 745	–	–	–	–	–	–	–
Contributions recognised - capital & contributed a	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
<u>Capital expenditure & funds sources</u>										
Capital expenditure	77 617	86 684	46 827	70 746	48 246	48 246	–	48 067	53 574	60 750
Transfers recognised - capital	74 117	86 684	45 277	68 046	48 046	48 046	–	48 067	53 574	60 750
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	3 500	–	–	–	–	–	–	–	–	–
Internally generated funds	–	–	1 550	2 700	200	200	–	–	–	–
Total sources of capital funds	77 617	86 684	46 827	70 746	48 246	48 246	–	48 067	53 574	60 750
<u>Financial position</u>										
Total current assets	25 893	5 299	11 753	32 672	32 672	32 672	–	20 770	22 574	26 486
Total non current assets	519 038	557 286	539 601	897 986	875 486	875 486	–	597 621	657 383	723 121
Total current liabilities	43 901	62 731	98 108	2 381	2 381	2 381	–	3 572	5 358	8 037
Total non current liabilities	12 457	19 813	20 499	30 257	30 257	30 257	–	36 308	43 570	52 284
Community wealth/Equity	488 574	480 041	432 747	898 020	875 520	875 520	–	578 510	631 029	689 286
<u>Cash flows</u>										
Net cash from (used) operating	28 361	54 135	56 804	63 115	36 167	36 167	–	45 991	52 108	60 860
Net cash from (used) investing	(24 695)	(64 551)	(49 896)	(70 746)	(48 246)	(48 246)	–	(48 067)	(53 574)	(60 750)
Net cash from (used) financing	(427)	2 600	(1 204)	–	–	–	–	–	–	–
Cash/cash equivalents at the year end	6 571	(1 245)	4 459	(6 030)	(7 815)	(7 815)	–	2 188	722	832
<u>Cash backing/surplus reconciliation</u>										
Cash and investments available	6 571	(1 245)	4 459	(4 143)	(4 143)	(4 143)	–	3 688	2 972	4 207
Application of cash and investments	36 241	56 790	94 678	(13 989)	(12 625)	(12 625)	–	(11 604)	(13 296)	(15 086)
Balance - surplus (shortfall)	(29 670)	(58 036)	(90 219)	9 846	8 482	8 482	–	15 292	16 268	19 293
<u>Asset management</u>										
Asset register summary (WDV)	518 368	556 750	539 108	897 986	875 486	875 486	923 553	923 553	977 127	1 037 877
Depreciation & asset impairment	27 058	26 377	20 396	–	–	–	6 376	6 376	6 752	7 130
Renewal of Existing Assets	–	–	–	–	–	–	–	–	–	–
Repairs and Maintenance	8 265	12 630	8 049	11 826	9 873	9 873	8 321	8 321	8 811	9 305
<u>Free services</u>										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	–	–	–	–	–	–	–	–	–	–
<u>Households below minimum service level</u>										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

Explanatory notes on Table A1 – Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flows, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.

3. Financial Management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow, as well as the capital budget. The Budget Summary provides the key information in this regard:
 - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected in the Financial Performance Budget;
 - ii. Borrowing is incorporated in the net cash from financing in the Cash Flow Budget;
 - iii. Internally generated funds are financed from a combination of the current operating surplus, accumulated cash-backed surpluses from previous years and envisaged budget year revenue collection. The amount is incorporated in the Net cash from investing in the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving, indicates that the necessary cash resources are available to fund the Capital Budget.
4. The cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations were not cash-backed. This has placed the municipality in a very vulnerable financial position. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations. It can therefore be seen that over the MTREF there is progressive improvement in the level of cash-backing of obligations showing an ultimate surplus.
5. Even though the council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs

Table 5 (Table A2) Budgeted Financial Performance (revenue and expenditure by standard classification)

FS195 Phumelela - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand	1									
Revenue - Standard										
<i>Governance and administration</i>		85 442	106 490	117 240	75 303	72 988	72 988	94 221	92 914	93 815
Executive and council		860	–	–	2 615	200	200	3 178	3 291	3 487
Budget and treasury office		79 375	106 490	115 833	71 173	71 364	71 364	88 792	87 238	87 810
Corporate services		5 206	–	1 407	1 515	1 424	1 424	2 252	2 385	2 518
<i>Community and public safety</i>		1 414	100	197	229	240	240	255	270	285
Community and social services		1 243	–	135	163	174	174	188	200	211
Sport and recreation		–	–	–	–	–	–	–	–	–
Public safety		96	100	62	66	66	66	66	70	74
Housing		–	–	–	–	–	–	–	–	–
Health		75	–	–	–	–	–	–	–	–
<i>Economic and environmental services</i>		71	26 794	20	1 058	1 081	1 081	36	38	40
Planning and development		35	26 794	20	1 058	1 081	1 081	36	38	40
Road transport		36	–	–	–	–	–	–	–	–
Environmental protection		–	–	–	–	–	–	–	–	–
<i>Trading services</i>		38 549	22 042	33 877	33 296	37 571	37 571	56 023	59 328	62 650
Electricity		13 977	9 863	7 769	13 801	8 178	8 178	8 782	9 300	9 821
Water		9 746	5 059	8 496	6 536	10 773	10 773	15 847	16 782	17 722
Waste water management		7 846	7 120	8 833	7 145	9 826	9 826	15 732	16 660	17 593
Waste management		6 980	–	8 779	5 814	8 795	8 795	15 662	16 586	17 514
<i>Other</i>	4	–	–	–	–	–	–	–	–	–
Total Revenue - Standard	2	125 477	155 426	151 334	109 886	111 879	111 879	150 534	152 549	156 790
Expenditure - Standard										
<i>Governance and administration</i>		57 653	97 161	75 264	41 069	45 706	45 706	60 425	59 210	62 409
Executive and council		9 100	4 561	11 533	13 084	16 169	16 169	20 126	18 219	19 268
Budget and treasury office		43 849	92 601	56 943	19 611	19 541	19 541	30 136	30 237	31 791
Corporate services		4 704	–	6 789	8 374	9 996	9 996	10 163	10 754	11 350
<i>Community and public safety</i>		4 078	4 163	4 540	4 019	4 212	4 212	3 338	3 535	3 733
Community and social services		2 121	–	2 693	1 867	2 415	2 415	1 424	1 509	1 593
Sport and recreation		1 404	1 103	1 158	1 174	1 096	1 096	1 239	1 312	1 385
Public safety		547	3 040	690	978	701	701	674	714	754
Housing		–	–	–	–	–	–	–	–	–
Health		6	20	–	–	–	–	–	–	–
<i>Economic and environmental services</i>		28 172	15 848	14 338	17 705	18 452	18 452	14 589	15 057	15 900
Planning and development		27 093	14 106	12 213	12 105	13 602	13 602	10 589	10 821	11 427
Road transport		1 079	1 742	2 125	5 600	4 850	4 850	4 000	4 236	4 473
Environmental protection		–	–	–	–	–	–	–	–	–
<i>Trading services</i>		35 351	32 881	55 431	44 327	43 501	43 501	71 603	83 572	72 560
Electricity		14 008	16 911	16 473	16 498	19 109	19 109	28 141	37 830	24 524
Water		9 204	9 922	20 865	11 894	8 247	8 247	23 800	24 921	26 048
Waste water management		6 863	6 047	11 728	8 957	9 104	9 104	10 862	11 503	12 147
Waste management		5 276	–	6 365	6 979	7 042	7 042	8 799	9 319	9 841
<i>Other</i>	4	–	–	–	–	–	–	–	–	–
Total Expenditure - Standard	3	125 255	150 053	149 573	107 121	111 871	111 871	149 954	161 373	154 601
Surplus/(Deficit) for the year		222	5 373	1 761	2 765	9	9	580	(8 824)	2 189

Explanatory notes to Table 5 (Table A2) – Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of these functional areas which enables the National treasury to compile 'whole of government' reports.
2. Note the Total revenue in this table excludes capital revenues and therefore will not balance to the operating revenue which includes capital transfers shown in Table A4.
3. Note that as a general principle the revenues for the trading services should exceed their expenditures.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenue sources reflected under the Budget and Treasury office.

Table 6 (Table A3) – Budgeted Financial Performance (revenue and expenditure by municipal vote)

FS195 Phumelela - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand										
Revenue by Vote	1									
Vote 1 - Council And Executive		860	–	–	2 615	200	200	3 178	3 291	3 487
Vote 2 - Financial And Administration Services		84 582	106 490	117 240	72 688	72 788	72 788	91 044	89 623	90 328
Vote 3 - Planning and Development		35	26 794	20	1 058	1 081	1 081	36	38	40
Vote 4 - Health		75	–	–	–	–	–	–	–	–
Vote 5 - Community and Social Services		1 243	–	135	163	174	174	188	200	211
Vote 6 - Public Safety		96	100	62	66	66	66	66	70	74
Vote 7 - Sports and Recreation		–	–	–	–	–	–	–	–	–
Vote 8 - Waste Management		6 980	–	8 779	5 814	8 795	8 795	15 662	16 586	17 514
Vote 9 - Waste Water Management		7 846	7 120	8 833	7 145	9 826	9 826	15 732	16 660	17 593
Vote 10 - Road Transport		36	–	–	–	–	–	–	–	–
Vote 11 - Water		9 746	5 059	8 496	6 536	10 773	10 773	15 847	16 782	17 722
Vote 12 - Electricity		13 977	9 863	7 769	13 801	8 178	8 178	8 782	9 300	9 821
Vote 13 - [NAME OF VOTE 13]		–	–	–	–	–	–	–	–	–
Vote 14 - [NAME OF VOTE 14]		–	–	–	–	–	–	–	–	–
Vote 15 - [NAME OF VOTE 15]		–	–	–	–	–	–	–	–	–
Total Revenue by Vote	2	125 477	155 426	151 334	109 886	111 879	111 879	150 534	152 549	156 790
Expenditure by Vote to be appropriated	1									
Vote 1 - Council And Executive		9 100	4 561	11 533	17 478	19 057	19 057	23 641	21 531	22 754
Vote 2 - Financial And Administration Services		48 553	92 601	63 732	24 617	26 659	26 659	37 734	38 292	40 303
Vote 3 - Planning and Development		27 093	14 106	12 213	11 079	13 591	13 591	9 639	10 207	10 779
Vote 4 - Health		6	20	–	–	–	–	–	–	–
Vote 5 - Community and Social Services		2 121	–	2 693	1 867	2 415	2 415	1 424	1 509	1 593
Vote 6 - Public Safety		547	3 040	690	978	701	701	674	714	754
Vote 7 - Sports and Recreation		1 404	1 103	1 158	1 174	1 096	1 096	1 239	1 312	1 385
Vote 8 - Waste Management		5 276	–	6 365	6 979	7 242	7 242	8 799	9 319	9 841
Vote 9 - Waste Water Management		6 863	6 047	11 728	8 957	9 104	9 104	10 862	11 503	12 147
Vote 10 - Road Transport		1 079	1 742	2 125	5 600	4 850	4 850	4 000	4 236	4 473
Vote 11 - Water		9 204	9 922	20 865	11 894	8 047	8 047	23 800	24 921	26 048
Vote 12 - Electricity		14 008	16 911	16 473	16 498	19 109	19 109	28 141	37 830	24 524
Vote 13 - [NAME OF VOTE 13]		–	–	–	–	–	–	–	–	–
Vote 14 - [NAME OF VOTE 14]		–	–	–	–	–	–	–	–	–
Vote 15 - [NAME OF VOTE 15]		–	–	–	–	–	–	–	–	–
Total Expenditure by Vote	2	125 255	150 053	149 573	107 121	111 871	111 871	149 954	161 373	154 601
Surplus/(Deficit) for the year	2	222	5 373	1 761	2 765	9	9	580	(8 824)	2 189

Explanatory notes to Table 6 (Table A3) – Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of Phumelela Local Municipality. This means it is possible to present the operating surplus or deficit per a particular vote.

Table 7 (Table A4) – Budgeted Financial Performance (revenue and expenditure)

FS195 Phumelela - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand	1										
Revenue By Source											
Property rates	2	6 075	7 483	7 799	7 886	7 802	7 802	–	22 493	23 821	25 154
Property rates - penalties & collection charges		–	–	–	–	–	–	–	–	–	–
Service charges - electricity revenue	2	6 506	6 797	7 062	13 785	7 724	7 724	–	6 456	6 837	7 219
Service charges - water revenue	2	7 247	4 166	5 692	6 533	8 794	8 794	–	15 847	16 782	17 722
Service charges - sanitation revenue	2	5 171	5 642	7 032	7 145	7 145	7 145	–	15 732	16 660	17 593
Service charges - refuse revenue	2	5 054	5 987	6 869	5 814	6 019	6 019	–	15 662	16 586	17 514
Service charges - other		–	–	–	–	–	–	–	–	–	–
Rental of facilities and equipment		1 299	602	990	1 393	1 291	1 291	–	1 928	2 042	2 156
Interest earned - external investments		896	672	546	543	232	232	–	222	235	248
Interest earned - outstanding debtors		2 697	3 539	6 507	574	9 856	9 856	–	5 717	6 054	6 393
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines		96	108	64	67	66	66	–	66	70	74
Licences and permits		29	17	17	23	23	23	–	18	19	20
Agency services		–	–	–	–	–	–	–	–	–	–
Transfers recognised - operational		53 117	59 449	59 290	63 099	62 266	62 266	–	64 898	61 992	61 117
Other revenue	2	7 204	490	721	3 024	663	663	–	1 496	1 453	1 579
Gains on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		95 391	94 951	102 590	109 886	111 879	111 879	–	150 534	152 549	156 790
Expenditure By Type											
Employee related costs	2	28 048	44 482	47 037	51 529	48 821	48 821	–	53 227	55 414	58 504
Remuneration of councillors		4 221	4 447	4 549	5 190	4 623	4 623	–	4 220	4 474	4 742
Debt impairment	3	20 012	16 929	21 784	–	–	–	–	6 314	6 686	7 060
Depreciation & asset impairment	2	27 058	26 377	20 396	–	–	–	–	6 376	6 752	7 130
Finance charges		1 187	2 027	2 862	208	1 500	1 500	–	891	944	997
Bulk purchases	2	16 106	17 602	18 164	15 619	17 706	17 706	–	20 521	21 732	22 949
Other materials	8	–	–	–	–	–	–	–	–	–	–
Contracted services		2 470	8 176	9 148	4 200	4 187	4 187	–	3 500	3 707	3 914
Transfers and grants		–	–	–	–	–	–	–	–	–	–
Other expenditure	4, 5	26 153	30 013	25 633	30 375	35 033	35 033	–	54 905	61 665	49 305
Loss on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Total Expenditure		125 255	150 053	149 573	107 121	111 871	111 871	–	149 954	161 373	154 601
Surplus/(Deficit)		(29 863)	(55 102)	(46 983)	2 765	9	9	–	580	(8 824)	2 189
Transfers recognised - capital		30 085	60 474	48 745	–	–	–	–	–	–	–
Contributions recognised - capital		–	–	–	–	–	–	–	–	–	–
Contributed assets		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
Taxation		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after taxation		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
Attributable to minorities		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) attributable to municipality		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189
Share of surplus/ (deficit) of associate	7	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year		222	5 373	1 761	2 765	9	9	–	580	(8 824)	2 189

Explanatory notes to Table 7 (Table A4)

1. Total revenue is envisaged to be R150.5m, escalates to R152.5m in 2016/17 and 156.8m in 2017/18.
2. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are declining steadily over the MTREF.
3. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in the future years, yet saving employment.

Table 8 (Table A5) – Budgeted Capital Expenditure by vote, standard classification and funding source

FS195 Phumelela - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand	1										
Capital expenditure - Vote											
Multi-year expenditure, to be appropriated	2										
Vote 1 - Council And Executive		-	-	-	-	-	-	-	-	-	-
Vote 2 - Financial And Administration Services		-	-	-	-	-	-	-	-	-	-
Vote 3 - Planning and Development		-	-	-	-	-	-	-	-	-	-
Vote 4 - Health		-	-	-	-	-	-	-	-	-	-
Vote 5 - Community and Social Services		-	-	-	-	-	-	-	-	-	-
Vote 6 - Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 7 - Sports and Recreation		-	-	-	-	-	-	-	-	-	-
Vote 8 - Waste Management		-	-	-	-	-	-	-	-	-	-
Vote 9 - Waste Water Management		-	-	-	-	-	-	-	-	-	-
Vote 10 - Road Transport		-	-	-	-	-	-	-	-	-	-
Vote 11 - Water		-	-	-	-	-	-	-	-	-	-
Vote 12 - Electricity		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	7	-	-	-	-	-	-	-	-	-	-
Single-year expenditure, to be appropriated	2										
Vote 1 - Council And Executive		-	-	-	-	-	-	-	-	-	-
Vote 2 - Financial And Administration Services		3 500	2 835	2 314	450	450	450	-	-	-	-
Vote 3 - Planning and Development		-	-	-	1 040	1 040	1 040	-	1 040	1 538	1 709
Vote 4 - Health		-	-	-	-	-	-	-	-	-	-
Vote 5 - Community and Social Services		-	-	-	-	-	-	-	-	-	-
Vote 6 - Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 7 - Sports and Recreation		11 845	4 042	4 213	3 119	3 119	3 119	-	3 329	3 094	3 320
Vote 8 - Waste Management		-	1 500	-	-	-	-	-	-	-	-
Vote 9 - Waste Water Management		22 860	20 275	5 507	9 250	6 750	6 750	-	366	-	-
Vote 10 - Road Transport		7 622	3 907	4 500	18 272	18 272	18 272	-	10 283	15 502	6 499
Vote 11 - Water		31 790	49 625	30 293	30 615	10 615	10 615	-	25 450	28 440	39 222
Vote 12 - Electricity		-	4 500	-	8 000	8 000	8 000	-	7 600	5 000	10 000
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		77 617	86 684	46 827	70 746	48 246	48 246	-	48 067	53 574	60 750
Total Capital Expenditure - Vote		77 617	86 684	46 827	70 746	48 246	48 246	-	48 067	53 574	60 750
Capital Expenditure - Standard											
Governance and administration		3 500	2 835	2 314	450	450	450	-	-	-	-
Executive and council		-	-	-	-	-	-	-	-	-	-
Budget and treasury office		-	-	-	-	-	-	-	-	-	-
Corporate services		3 500	2 835	2 314	450	450	450	-	-	-	-
Community and public safety		11 845	4 042	4 213	3 119	3 119	3 119	-	3 329	3 094	3 320
Community and social services		-	-	-	-	-	-	-	-	-	-
Sport and recreation		11 845	4 042	4 213	3 119	3 119	3 119	-	3 329	3 094	3 320
Public safety		-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-
Economic and environmental services		7 622	3 907	4 500	19 311	19 311	19 311	-	11 322	16 558	7 605
Planning and development		-	-	-	1 040	1 040	1 040	-	1 040	1 057	1 107
Road transport		7 622	3 907	4 500	18 272	18 272	18 272	-	10 283	15 502	6 499
Environmental protection		-	-	-	-	-	-	-	-	-	-
Trading services		54 650	75 900	35 800	47 865	25 365	25 365	-	33 416	33 440	49 222
Electricity		-	4 500	-	8 000	8 000	8 000	-	7 600	5 000	10 000
Water		31 790	49 625	30 293	30 615	10 615	10 615	-	25 450	28 440	39 222
Waste water management		22 860	20 275	5 507	9 250	6 750	6 750	-	366	-	-
Waste management		-	1 500	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	482	602
Total Capital Expenditure - Standard	3	77 617	86 684	46 827	70 746	48 246	48 246	-	48 067	53 574	60 750
Funded by:											
National Government		32 940	26 624	45 277	68 046	48 046	48 046	-	48 067	53 574	60 750
Provincial Government		33 877	56 942	-	-	-	-	-	-	-	-
District Municipality		2 000	-	-	-	-	-	-	-	-	-
Other transfers and grants		5 300	3 118	-	-	-	-	-	-	-	-
Transfers recognised - capital	4	74 117	86 684	45 277	68 046	48 046	48 046	-	48 067	53 574	60 750
Public contributions & donations	5	-	-	-	-	-	-	-	-	-	-
Borrowing	6	3 500	-	-	-	-	-	-	-	-	-
Internally generated funds		-	-	1 550	2 700	200	200	-	-	-	-
Total Capital Funding	7	77 617	86 684	46 827	70 746	48 246	48 246	-	48 067	53 574	60 750

Explanatory notes to Table 8 (Table A5) – Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year budget appropriations. A total of R47.967m has been allocated for the 2015/16 financial year, R53.574m for the 2016/17 financial year and flattens out to R60.750m in the 2017/18 financial year.
3. The capital programme is funded from capital transfers from national and provincial government.

Table 9 (Table A6) – Budgeted Financial Position

FS195 Phumelela - Table A6 Budgeted Financial Position

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand											
ASSETS											
Current assets											
Cash		6 571	708	4 459	(6 030)	(6 030)	(6 030)	–	2 188	722	832
Call investment deposits	1	–	–	–	1 888	1 888	1 888	–	1 500	2 250	3 375
Consumer debtors	1	427	1 190	4 679	16 582	16 582	16 582	–	16 582	19 002	21 558
Other debtors		5 903	2 708	2 003	–	–	–	–	–	–	–
Current portion of long-term receivables		–	–	–	–	–	–	–	–	–	–
Inventory	2	12 992	693	612	20 233	20 233	20 233	–	500	600	720
Total current assets		25 893	5 299	11 753	32 672	32 672	32 672	–	20 770	22 574	26 486
Non current assets											
Long-term receivables		–	–	–	–	–	–	–	–	–	–
Investments		–	–	–	–	–	–	–	–	–	–
Investment property		20 532	19 975	19 390	–	–	–	–	–	–	–
Investment in Associate		–	–	–	–	–	–	–	–	–	–
Property, plant and equipment	3	497 733	536 728	519 670	897 986	875 486	875 486	–	597 621	657 383	723 121
Agricultural		–	–	–	–	–	–	–	–	–	–
Biological		–	–	–	–	–	–	–	–	–	–
Intangible		104	48	48	–	–	–	–	–	–	–
Other non-current assets		670	536	493	–	–	–	–	–	–	–
Total non current assets		519 038	557 286	539 601	897 986	875 486	875 486	–	597 621	657 383	723 121
TOTAL ASSETS		544 931	562 585	551 354	930 658	908 158	908 158	–	618 391	679 957	749 607
LIABILITIES											
Current liabilities											
Bank overdraft	1	–	1 953	–	–	–	–	–	–	–	–
Borrowing	4	–	–	–	1 833	1 833	1 833	–	2 750	4 125	6 188
Consumer deposits		237	232	231	548	548	548	–	822	1 233	1 849
Trade and other payables	4	43 664	60 545	97 877	–	–	–	–	–	–	–
Provisions		–	–	–	–	–	–	–	–	–	–
Total current liabilities		43 901	62 731	98 108	2 381	2 381	2 381	–	3 572	5 358	8 037
Non current liabilities											
Borrowing		–	–	–	9 962	9 962	9 962	–	11 954	14 345	17 214
Provisions		12 457	19 813	20 499	20 295	20 295	20 295	–	24 354	29 225	35 070
Total non current liabilities		12 457	19 813	20 499	30 257	30 257	30 257	–	36 308	43 570	52 284
TOTAL LIABILITIES		56 357	82 544	118 607	32 638	32 638	32 638	–	39 880	48 928	60 321
NET ASSETS	5	488 574	480 041	432 747	898 020	875 520	875 520	–	578 510	631 029	689 286
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		488 574	480 041	432 747	898 020	875 520	875 520	–	578 510	631 029	689 286
Reserves	4	–	–	–	–	–	–	–	–	–	–
Minorities' interests		–	–	–	–	–	–	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	5	488 574	480 041	432 747	898 020	875 520	875 520	–	578 510	631 029	689 286

Explanatory notes to table 9 (Table A6) – Budget Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets and Liabilities as “accounting” Community Wealth or Equity. The order of items within each group illustrates requirements to be met from cash, and appears first.
3. Table A6 provides a detailed analysis of the major components of a number of items, including:
 - a. Call investments deposits;
 - b. Consumer debtors;
 - c. Property, plant and equipment;
 - d. Trade and other payables;
 - e. Non-current Provisions;
 - f. Changes in net assets; and
 - g. Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 10 (Table A7) – Budgeted Cash Flow Statement

FS195 Phumelela - Table A7 Budgeted Cash Flows

FS 195 Prumelela - Table A/ Budgeted Cash Flows											
Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates, penalties & collection charges		17 404	7 799	4 611	7 886	7 802	7 802	–	16 870	17 865	18 866
Service charges		21 748	25 030	14 785	26 622	27 755	27 755	–	40 272	42 648	45 036
Other revenue		9 372	727	1 071	4 507	2 042	2 042	–	2 631	2 688	2 872
Government - operating	1	49 087	61 339	59 852	63 099	62 266	62 266	–	64 898	61 992	61 117
Government - capital	1	27 219	57 656	50 563	67 006	47 006	47 006	–	48 067	53 574	60 750
Interest		896	672	546	1 117	1 117	1 117	–	4 454	4 717	4 981
Dividends		–	–	–	–	–	–	–	–	–	–
Payments											
Suppliers and employees		(96 178)	(97 061)	(71 762)	(106 913)	(111 822)	(111 822)	–	(130 533)	(130 668)	(132 014)
Finance charges		(1 187)	(2 027)	(2 862)	(208)	–	–	–	(668)	(708)	(747)
Transfers and Grants	1	–	–	–	–	–	–	–	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		28 361	54 135	56 804	63 115	36 167	36 167	–	45 991	52 108	60 860
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Decrease (increase) in non-current debtors		–	–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables		–	–	–	–	–	–	–	–	–	–
Decrease (increase) in non-current investments		–	–	–	–	–	–	–	–	–	–
Payments											
Capital assets		(24 695)	(64 551)	(49 896)	(70 746)	(48 246)	(48 246)	–	(48 067)	(53 574)	(60 750)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(24 695)	(64 551)	(49 896)	(70 746)	(48 246)	(48 246)	–	(48 067)	(53 574)	(60 750)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		–	–	–	–	–	–	–	–	–	–
Borrowing long term/refinancing		–	–	–	–	–	–	–	–	–	–
Increase (decrease) in consumer deposits		–	–	–	–	–	–	–	–	–	–
Payments											
Repayment of borrowing		(427)	2 600	(1 204)	–	–	–	–	–	–	–
NET CASH FROM/(USED) FINANCING ACTIVITIES		(427)	2 600	(1 204)	–	–	–	–	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD		3 239	(7 816)	5 704	(7 631)	(12 079)	(12 079)	–	(2 076)	(1 466)	110
Cash/cash equivalents at the year begin:	2	3 333	6 571	(1 245)	1 600	4 264	4 264	–	4 264	2 188	722
Cash/cash equivalents at the year end:	2	6 571	(1 245)	4 459	(6 030)	(7 815)	(7 815)	–	2 188	722	832

Explanatory notes to Table 10 (Table A7) Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2015/16 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term

Table 11 (Table A8) – Cash Backed Reserves/Accumulated Surplus Reconciliation

FS195 Phumelela - Table A8 Cash backed reserves/accumulated surplus reconciliation

FS195 Phumelela - Table A8 Cash backed reserves/accumulated surplus reconciliation											
Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand											
Cash and investments available											
Cash/cash equivalents at the year end	1	6 571	(1 245)	4 459	(6 030)	(7 815)	(7 815)	–	2 188	722	832
Other current investments > 90 days		–	0	0	1 888	3 672	3 672	–	1 500	2 250	3 375
Non current assets - Investments	1	–	–	–	–	–	–	–	–	–	–
Cash and investments available:		6 571	(1 245)	4 459	(4 143)	(4 143)	(4 143)	–	3 688	2 972	4 207
Application of cash and investments											
Unspent conditional transfers		1 834	907	3 557	–	–	–	–	–	–	–
Unspent borrowing		–	–	–	–	–	–	–	–	–	–
Statutory requirements	2	–	–	–	–	–	–	–	–	–	–
Other working capital requirements	3	34 407	55 884	91 121	(13 989)	(12 625)	(12 625)	–	(11 604)	(13 296)	(15 086)
Other provisions		–	–	–	–	–	–	–	–	–	–
Long term investments committed	4	–	–	–	–	–	–	–	–	–	–
Reserves to be backed by cash/investments	5	–	–	–	–	–	–	–	–	–	–
Total Application of cash and investments:		36 241	56 790	94 678	(13 989)	(12 625)	(12 625)	–	(11 604)	(13 296)	(15 086)
Surplus(shortfall)		(29 670)	(58 036)	(90 219)	9 846	8 482	8 482	–	15 292	16 268	19 293

Explanatory notes to Table 11 (Table A8) – Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Compliance with section 18 of the MFMA is assumed because a surplus indirectly indicates that the annual budget is appropriately funded.
5. As part of the budgeting and planning guidelines that informed the compilation of the 2015/16 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

Table 12 (Table A9) – Asset Management

FS195 Phumelela - Table A9 Asset Management

FS 195 Phumelaia - Table A9 Asset Management										
Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand										
CAPITAL EXPENDITURE										
<u>Total New Assets</u>	1	77 617	86 684	46 827	70 746	48 246	48 246	48 067	53 574	60 750
Infrastructure - Road transport		7 622	3 907	4 500	18 272	18 272	18 272	9 558	10 767	10 551
Infrastructure - Electricity		-	4 500	-	8 000	8 000	8 000	7 600	5 000	10 000
Infrastructure - Water		31 790	49 625	30 293	30 615	10 615	10 615	20 000	27 440	28 616
Infrastructure - Sanitation		22 860	20 275	5 507	9 250	6 750	6 750	6 750	5 750	4 750
Infrastructure - Other		3 500	4 335	2 314	450	450	450	-	-	-
Infrastructure		65 772	82 642	42 614	66 587	44 087	44 087	43 908	48 957	53 917
Community		11 845	4 042	4 213	3 119	3 119	3 119	3 119	4 617	6 833
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	-	-	-	1 040	1 040	1 040	1 040	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
<u>Total Renewal of Existing Assets</u>	2	-	-	-	-	-	-	-	-	-
Infrastructure - Road transport		-	-	-	-	-	-	-	-	-
Infrastructure - Electricity		-	-	-	-	-	-	-	-	-
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Infrastructure - Other		-	-	-	-	-	-	-	-	-
Infrastructure		-	-	-	-	-	-	-	-	-
Community		-	-	-	-	-	-	-	-	-
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	-	-	-	-	-	-	-	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
<u>Total Capital Expenditure</u>	4	-	-	-	-	-	-	-	-	-
Infrastructure - Road transport		7 622	3 907	4 500	18 272	18 272	18 272	9 558	10 767	10 551
Infrastructure - Electricity		-	4 500	-	8 000	8 000	8 000	7 600	5 000	10 000
Infrastructure - Water		31 790	49 625	30 293	30 615	10 615	10 615	20 000	27 440	28 616
Infrastructure - Sanitation		22 860	20 275	5 507	9 250	6 750	6 750	6 750	5 750	4 750
Infrastructure - Other		3 500	4 335	2 314	450	450	450	-	-	-
Infrastructure		65 772	82 642	42 614	66 587	44 087	44 087	43 908	48 957	53 917
Community		11 845	4 042	4 213	3 119	3 119	3 119	3 119	4 617	6 833
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets		-	-	-	1 040	1 040	1 040	1 040	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
TOTAL CAPITAL EXPENDITURE - Asset class	2	77 617	86 684	46 827	70 746	48 246	48 246	48 067	53 574	60 750
ASSET REGISTER SUMMARY - PPE (WDV)										
Infrastructure - Road transport	5	180 601	190 320	130 578	255 309	255 309	255 309	165 591	181 093	187 591
Infrastructure - Electricity		4 790	9 427	2 981	30 367	30 367	30 367	27 967	32 967	42 967
Infrastructure - Water		173 477	205 019	110 612	379 562	359 562	359 562	185 012	213 452	252 674
Infrastructure - Sanitation		76 009	87 490	53 564	195 057	195 057	195 057	185 423	185 423	185 423
Infrastructure - Other		62 856	44 473	221 936	450	450	450	33 628	44 449	54 466
Infrastructure		497 733	536 728	519 670	860 744	840 744	840 744	597 621	657 383	723 121
Community		-	-	-	11 375	11 375	11 375	-	-	-
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		20 532	19 975	19 390	-	-	-	-	-	-
Other assets		-	-	-	25 867	23 367	23 367	-	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		104	48	48	-	-	-	-	-	-
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	518 368	556 750	539 108	897 986	875 486	875 486	597 621	657 383	723 121

Explanatory notes to Table 12 (Table A9) – Asset Management

- Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
- National Treasury has recommended that municipalities should allocate at least 40 percent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be at least 10% of PPE. Phumelela Local Municipality does not meet any of these recommendations. The reason for this is that the capital budget of the municipality is funded in the form of conditional grants, and these can only be used for new assets as opposed to being used for the renewal of existing assets.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 regulation 4 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and Senior Managers, Budget Manager, IDP Manager of the municipality meeting under the chairpersonship of the Council Committee for Finance.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the PLM's IDP and the budget, taking into account the need to protect the financial sustainability of the municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- That the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 IDP, Service Delivery and Budget Implementation Plan

This is the fourth review of the IDP as adopted by council in May 2011. It started in September 2013 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2015/16 MTREF in August 2014.

The PLM's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly informs the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fifth revision cycle included the following Key IDP Processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring process.

The IDP has been taken into a business and financial planning process leading up to the 2015/16 MTREF, based on the approved 2014/15 MTREF and the Mid-year review. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2015/2016 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the Mid-year performance against the 2014/2015 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detailed operating budget appropriations and three-year capital programme.

2.1.2 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2015/2016 MTREF, an extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of this MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation)
- Performance trends
- The approved 2014/2015 budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 74 and 75 has been taken into consideration in the planning and prioritisation process.

2.1.3 Community Consultation

The draft 2015/2016 MTREF as will be tabled before Council on 29 March 2015 for community consultation will be published on the municipality's website, and hard copies made available at municipal offices and other community centres. In addition budget road shows will be held in different municipal clusters. Inputs will also be collected via e-mails.

All documents in the appropriate format (electronic and printed) will be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects will be addressed, and where relevant considered as part of the finalisation of the 2015/2016 MTREF.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (PGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPis);
- Accelerated and Shared Growth Initiative of South Africa (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP);
- The National Priority Outcomes; and
- National Development Plan

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's six strategic objectives for the 2015/2016 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 16 – IDP Strategic Objectives

2015/16 Financial Year
1. Provision of quality basic services and infrastructure 2. Economic growth and development that leads to sustainable job creation 3.1 Fight poverty and build clean, healthy, safe and sustainable communities 3.2 Integrated Social Services for empowered and sustainable communities 4. Foster participatory democracy and Batho-Pele principles through a caring, accessible and accountable service 5.1 Promote sound governance 5.2 Ensure financial sustainability 5.3 Optimal institutional transformation to ensure capacity to achieve set objectives

In order to ensure integrated and focused service delivery between all spheres of government it was important for the PLM to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
 - Provide electricity;
 - Provide water;
 - Provide sanitation;
 - Provide waste removal;
 - Provide housing;
 - Provide roads and storm water;
 - Provide planning services (Town Planning); and
 - Maintaining the infrastructure of the PLM.
2. Economic growth and development that leads to sustainable job creation by:
 - Ensuring there is a clear structural plan for the PLM;
 - Ensuring planning processes function in accordance with set timeframes;
 - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
3. Fight poverty and build clean, healthy, safe and sustainable communities:
 - Effective implementation of the Indigent Policy;
 - Working with the provincial department of health to provide primary health care services;
 - Extending waste removal services and ensuring effective PLM cleansing;
 - Ensuring all waste water treatment works are operating optimally;
 - Working with strategic partners such as SAPS to address crime;
 - Ensuring safe working environments by effective enforcement of building and health regulations;
 - Promote viable, sustainable communities through proper zoning; and
 - Promote environmental sustainability by protecting wetlands and key open spaces.
4. Integrated Social Services for empowered and sustainable communities
 - Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme
5. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
 - Optimising effective community participation in the ward committee system; and
 - Implementing Batho Pele in the revenue management strategy.
6. Promote sound governance through:
 - Publishing the outcomes of all tender processes on the municipal website
7. Ensure financial sustainability through:
 - Reviewing the use of contracted services
 - Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan
8. Optimal institutional transformation to ensure capacity to achieve set objectives
 - Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the PLM. The five-year programme responds to the development challenges and opportunities faced by the PLM by identifying the key performance areas to achieve the five strategic objectives mentioned above.

In addition to the five-year IDP, the PLM undertakes an extensive planning and developmental strategy which primarily focuses on a longer term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the PLM so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional

dormitory settlements. It provides direction to the PLM's IDP, associated sectorial plans and strategies, and the allocation of resources of the PLM and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fifth revised IDP, including:

- Strengthening the analysis and strategic planning processes of the PLM;
- Initiating zone planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2015/16 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

Table 17 (Table SA4) – Reconciliation between the IDP strategic objectives and the budget revenue

FS195 Phumelela - Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)

FS 195 Phumelela - Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)													
Strategic Objective	Goal	Goal Code	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	
R thousand													
100% Households in formal settlement have access to basic level of water	Proper water distribution and management			9 746	5 059	8 496	6 533	10 773	10 773	15 847	16 782	17 722	
100% Households in formal settlement have access to basic level of sanitation	Proper sewerage and sanitation management			7 846	7 120	8 833	7 145	9 826	9 826	15 732	16 660	17 593	
To ensure that identified internal roads in the Phumelela municipal area are maintained and upgraded to facilitate economic & social activity required for the sustainable development of municipality; considering the capacity limitations facing the municipality	To maintain and upgrade internal roads in order to facility economic and social activity			36	–	–	–	–	–	–	–	–	
To create employment opportunities in the Phumelela municipal area; resulting from programmes and projects of this IDP	To create employment opportunities in local and rural areas			–	–	–	–	–	–	–	–	–	
To facilitate the financial viability of the Phumelela local municipality as measured in terms of the key indicators of the Municipal Planning and Performance Management Regulations, 2001	To ensure financial viability in terms of budget and treasury & assessment rates			84 582	106 490	117 240	70 984	71 364	71 364	88 792	87 238	87 810	
To facilitate institutional transformation and development in the Phumelela local municipality	To ensure institutional transformation and development in terms of Corporate services, Property services and Property services: Commonage			35	26 794	20	1 393	2 505	2 505	2 287	2 422	2 558	
To ensure good governance in the Phumelela local municipality	Ensure good governance in the office of the mayor, council, municipal manager & town planning			860	–	–	4 002	200	200	3 178	3 291	3 487	
To ensure good waste management in the Phumelela municipal area	Ensure good solid waste management			6 980	–	8 779	5 814	8 795	8 795	15 662	16 586	17 514	
To ensure good that 100% of households in the Phumelela municipal area have access to electricity	To ensure proper electricity distribution			13 977	9 863	7 769	13 785	8 178	8 178	8 782	9 300	9 821	
To ensure effective management of grave yards and cemeteries in the Phumelela municipal area	To ensure proper management of cemetery and parks			722	–	133	162	174	174	188	200	211	
To ensure access to quality sport and recreational in the Phumelela municipal area	To ensure proper management of the library, sport and recreational facilities			521	–	2	1	0	0	–	–	–	
To ensure effective traffic management and parking in the Phumelela municipal area	To ensure proper traffic control			96	100	62	66	66	66	66	70	74	
To ensure effective firefighting in the Phumelela municipal area	To ensure proper fire fighting			–	–	–	–	–	–	–	–	–	
No strategic Objective in IDP	Health			75	–	–	–	–	–	–	–	–	
Allocations to other priorities				2									
Total Revenue (excluding capital transfers and contributions)				1	125 477	155 426	151 334	109 886	111 879	111 879	150 534	152 549	156 790

Table 18 (Table SA5) – Reconciliation between the IDP strategic objectives and budgeted operating expenditure

FS195 Phumelela - Supporting Table SA5 Reconciliation of IDP strategic objectives and budget (operating expenditure)

S193 Phumelela - Supporting Table SAs Reconciliation of IDP Strategic Objectives and Budget (operating expenditure)													
Strategic Objective	Goal	Goal Code	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	
R thousand													
100% Households in formal settlement have access to basic level of water	Proper water distribution and management			9 204	9 922	20 865	11 894	8 247	8 247	23 800	24 921	26 048	
100% Households in formal settlement have access to basic level of sanitation	Proper sewerage and sanitation management			6 863	6 047	11 728	8 957	9 104	9 104	10 862	11 503	12 147	
To ensure that identified internal roads in the Phumelela municipal area are maintained	To maintain and upgrade internal roads in order to facility economic and social			1 079	1 742	2 125	5 600	4 850	4 850	4 000	4 236	4 473	
To create employment opportunities in the Phumelela municipal area; resulting from	To create employment opportunities in local and rural areas			—	—	—	—	—	—				
To facilitate the financial viability of the Phumelela local municipality as measured in	To ensure financial viability in terms of budget and treasury & assessment rates			45 253	93 704	58 101	12 910	30 633	30 633	41 537	42 303	44 526	
To facilitate institutional transformation and development in the Phumelela	To ensure institutional development in terms of			31 797	14 106	19 001	8 374	13 602	13 602	10 589	10 821	11 427	
To ensure good governance in the Phumelela local municipality	Ensure good governance in the office of the mayor, council, municipal manager &			9 100	4 561	11 533	33 065	16 169	16 169	20 126	18 219	19 268	
To ensure good waste management in the Phumelela municipal area	Ensure good solid waste management			5 276	—	6 365	6 979	7 042	7 042	8 799	9 319	9 841	
To ensure good that 100% of households in the Phumelela municipal area have access	To ensure proper electricity distribution			14 008	16 911	16 473	16 498	19 109	19 109	28 141	37 830	24 524	
To ensure effective management of grave yards and cemeteries in the	To ensure proper management of cemetery and parks			1 210	—	1 456	1 337	909	909	797	845	892	
To ensure access to quality sport and recreational in the Phumelela municipal area	To ensure proper management of the library, sport and recreational facilities			911	—	1 237	530	1 506	1 506	627	664	701	
To ensure effective traffic management and parking in the Phumelela municipal area	To ensure proper traffic control			547	3 040	690	978	701	701	674	714	754	
No strategic Objective in IDP	Health			6	20	—	—	—	—				
Service delivery	To deliver affordable and acceptable service.						—						
Good governance	To achieve compliance with relevant Acts.						—						
Municipal planning	To successfully implement the IDP.						—						
Capacity building	To provide the necessary personnel.						—						
Financial viability	To achieve financial sustainability.						—						
Allocations to other priorities													
Total Expenditure				1	125 255	150 053	149 573	107 121	111 871	111 871	149 954	161 373	154 601

Table 19 (Table SA6) – Reconciliation between the IDP strategic objectives and the budgeted capital expenditure

FS195 Phumelela - Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital expenditure)

PS 195 Phumelela - Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital expenditure)													
Strategic Objective	Goal	Goal Code	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	
R thousand													
100% Households in formal settlement have access to basic level of water	Proper water distribution and management	A		31 790	49 625	30 293	30 615	10 615	10 615	25 450	28 440	39 222	
100% Households in formal settlement have access to basic level of sanitation	Proper sewerage and sanitation management	B		22 860	20 275	5 507	9 250	6 750	6 750	366	–	–	
To ensure that identified internal roads in the Phumelela municipal area are maintained	To maintain and upgrade internal roads in order to facility economic and social	C		7 622	3 907	4 500	18 272	18 272	18 272	10 283	15 502	6 499	
To create employment opportunities in the Phumelela municipal area; resulting from	To create employment opportunities in local and rural areas	D					–	–	–	–	–	–	
To facilitate the financial viability of the Phumelela local municipality as measured in	To ensure financial viability in terms of budget and treasury & assessment rates	E					–	–	–	–	–	–	
To facilitate institutional transformation and development in the Phumelela	To ensure institutional transformation and development in terms of	F		3 500	2 835	2 314	450	450	450	–	–	–	
To ensure good governance in the Phumelela local municipality	Ensure good governance in the office of the mayor, council, municipal manager &	G					1 040	1 040	1 040	1 040	1 057	1 107	
To ensure good waste management in the Phumelela municipal area	Ensure good solid waste management	H		–	1 500	–	–	–	–				
To ensure good that 100% of households in the Phumelela municipal area have access	To ensure proper electricity distribution	I		–	4 500	–	8 000	8 000	8 000	7 600	5 000	10 000	
To ensure effective management of grave yards and cemeteries in the	To ensure proper management of cemetery and parks	J					–						
To ensure access to quality sport and recreational in the Phumelela municipal area	To ensure proper management of the library, sport and recreational facilities	K		11 845	4 042	4 213	3 119	3 119	3 119	3 329	3 094	3 320	
To ensure effective traffic management and parking in the Phumelela municipal area	To ensure proper traffic control	L					–			–			
To ensure effective firefighting in the Phumelela municipal area	To ensure proper fire fighting	M					–			–			
No strategic Objective in IDP	Health	N					–			–			
Other	Other	O					–			–	482	602	
		P					–						
Allocations to other priorities				3									
Total Capital Expenditure				1	77 617	86 684	46 827	70 746	48 246	48 246	48 067	53 574	60 750

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the PLM has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the Framework of Managing Programme Performance Information issued by the National Treasury:

The following table sets out the municipalities main performance objectives and benchmarks for the 2015/2016 MTREF.

Table 20 (Table SA8) – Performance indicators and benchmarks

FS195 Phumelela - Supporting Table SA8 Performance indicators and benchmarks

FS195 Phumelela - Supporting Table SAs Performance indicators and benchmarks											
Description of financial indicator	Basis of calculation	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<u>Borrowing Management</u>											
Credit Rating											
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	1,3%	-0,4%	2,7%	0,2%	1,3%	1,3%	0,0%	0,6%	0,6%	0,6%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	3,8%	-1,6%	9,4%	0,4%	3,0%	3,0%	0,0%	1,0%	1,0%	1,0%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure ex cl. transfers and grants and contributions	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
<u>Safety of Capital</u>											
Gearing	Long Term Borrowing/ Funds & Reserves	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
<u>Liquidity</u>											
Current Ratio	Current assets/current liabilities	0,6	0,1	0,1	13,7	13,7	13,7	–	5,8	4,2	3,3
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	0,6	0,1	0,1	13,7	13,7	13,7	–	5,8	4,2	3,3
Liquidity Ratio	Monetary Assets/Current Liabilities	0,1	0,0	0,0	(1,7)	(1,7)	(1,7)	–	1,0	0,6	0,5
<u>Revenue Management</u>											
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing		130,3%	109,2%	56,3%	83,8%	94,9%	94,9%	0,0%	75,0%	75,0%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		130,3%	109,2%	56,3%	83,8%	94,9%	94,9%	0,0%	75,0%	75,0%	75,0%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	6,6%	4,1%	6,5%	15,1%	14,8%	14,8%	0,0%	11,0%	12,5%	13,7%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old										
<u>Creditors Management</u>											
Creditors System Efficiency	% of Creditors Paid Within Terms (within MFMA' s 65(e))										
Creditors to Cash and Investments		636,6%	-4789,2%	2115,3%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
<u>Other Indicators</u>											
Electricity Distribution Losses (2)	Total Volume Losses (kW)										
	Total Cost of Losses (Rand '000)										
	% Volume (units purchased and generated less units sold)/units purchased and generated										
Water Distribution Losses (2)	Total Volume Losses (kℓ)										
	Total Cost of Losses (Rand '000)										
	% Volume (units purchased and generated less units sold)/units purchased and generated										
Employee costs	Employee costs/(Total Revenue - capital revenue)	29,4%	46,8%	45,8%	46,9%	43,6%	43,6%	0,0%	35,4%	36,3%	37,3%
Remuneration	Total remuneration/(Total Revenue - capital revenue)	37,2%	47,3%	50,3%	51,3%	47,8%	47,8%		0,0%	0,0%	0,0%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	8,7%	13,3%	7,8%	10,8%	8,8%	8,8%		5,5%	5,8%	5,9%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	29,6%	29,9%	22,7%	0,2%	1,3%	1,3%	0,0%	4,8%	5,0%	5,2%
<u>IDP regulation financial viability indicators</u>											
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	(21,9)	20,3	38,8	41,9	41,9	41,9	–	18,2	18,2	19,2
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	20,2%	12,7%	18,9%	39,0%	42,8%	42,8%	0,0%	21,2%	23,0%	24,7%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	1,0	(0,1)	0,5	(0,8)	(1,0)	(1,0)	–	0,2	0,1	0,1

2.4 Overview of budget related-policies

The PLM's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of credit control and debt collection procedures/policies

The Credit Control and Debt Collection Policy as approved by Council on 25 March 2008, has been reviewed. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection

rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the SETA training institution aims to also train indigent households. In line with the national government's initiative to create a million jobs, all role players are actively involved in the reduction of the number of registered indigent households.

The 2015/16 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 75 percent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the PLM's cash levels. In addition, PLM has already embarked on encouraging the community to pay for services and those who cannot afford to pay, be registered as indigents.

2.4.2 Asset Management, Infrastructure Investment and Funding Policy

The Municipality has recently reviewed and adopted a Fixed Assets Management policy which provides all the information relating to the funding and investment related to the Infrastructure.

2.4.3 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 25 March 2008. The SCM policy was reviewed during the Annual Budget for 2015/16 MTREF and this policy will be adopted by council when the Annual Budget is adopted on the 29 May 2015.

2.4.4 Other Reviewed Policies

The following policies were also reviewed when the Annual Budget for 2015/16 MTREF was prepared:

- Tariffs Policy
- Credit and Debt Collection Policy
- Indigent Policy
- Write-off Policy
- Petty Cash Policy
- Banking and Investment Policy
- Budget and Virements Policy
- Fixed Asset Management Policy
- Accounting Policy
- Borrowing Policy
- Funds and Reserves Policy
- Property Rates Policy
- Contingent Liabilities Policy
- Commitments Policy
- Unauthorised, Irregular and Fruitless Expenditure Policy

2.5 OVERVIEW OF THE BUDGET ASSUMPTIONS

2.5.1 External Factors

The Budget Review 2015 notes that the South African economy has weakened and the pattern of slow growth is likely to persist, with consequences for all developing economies. South Africa's gross domestic product (GDP) forecast for 2015 has also been revised down. The National Treasury projects GDP growth of 2 percent in 2015, rising to 3percent by 2017. Average Growth over the forecast period is 0.4 percentage point lower than at the time of the 2014 Medium Term Budget Policy Statement. Inadequate electricity supply however will impose a serious constraint on output and exports over the short term.

2.5.2 General inflation outlook and its impact on the municipal activities

There are four key factors that have been taken into consideration in the compilation of the 2015/16 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration.

However, CPI inflation rate is still within the 6 percent parameter set by the South African Reserve Bank.

2.5.3 Collection rate for revenue services

Cash flow is assumed to be 75 percent of billings due to corrective measures that have been implemented. The performance of arrears collection will only be considered as a source of additional cash in-flow once the performance has been carefully monitored.

The achievement of the budgeted revenue is premised on the following assumptions.

- Data cleansing to achieve correct billings
- Upgrading of the bulk electricity infrastructure to the tune of R7.5m to reduce electricity losses as a result of line losses.
- Installation of smart/split meters to prevent tempering
- Cleaning and replacing of broken water meters
- Install new meter in Zamani and Ezenzeleni to abolish the flat rate that is currently being used as a form of billing.
- Appointment of three credit controllers and the revenue and credit control manager to improve revenue management.
- Subsidising indigents only, as opposed to the current practice of subsidising every household
- Billing consumers correctly for each service consumed.

2.5.4 Salary increases

The Salary and Wage Collective Agreement for the period 01 July 2012 to 30 June 2015 has come to an end. The South African Local Government Association issued a press release on 3 March 2015 indicating that it tabled the following offer for salaries and wages increase

- 2015/16 Financial Year – 4.4 percent (inflation linked)
- 2016/17 and 2017/18 Financial Years – inflation related increase plus additional 0.25 percent

As negotiations are still underway, the municipality has used 4.8% for the preparation of its budget. Moreover, the municipality has just undergone an organisational review and filled the most critical vacancies as per the latest approved organisational structure (organogram). This exercise has drastically increased municipality's salary budget pool for the 2015/2016 financial period, but yet improving service delivery.

2.5.5 Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the PLM, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the costs incurred for servicing the household is the same whether it is poor or not, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

2.5.6 Impact of National, Provincial and Local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and, in this regard, various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. As thus, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Infrastructure development;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure, thereby ensuring the achievement of the national, provincial and local objectives.

2.5.6 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of almost 100 percent is achieved on operating expenditure and a total of 100 percent on the capital programme for the 2015/16 MTREF. If the municipality could exhaust all its funds to ensure service delivery to the community, that is a committed municipality.

2.6 Overview of budget funding

2.6.1 Medium-term outlook: operating revenue

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives a reasonable part of its operational revenue from the provision of services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building fees, licences and permits, etc.) make up the rest of the pie.

The revenue strategy is a function of key components such as:

- Growth in the PLM and economic development;
- Revenue management and enhancement;
- Achievement of a 75 percent collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) guideline;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- The ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

2.6.2 Medium-term outlook: Capital Revenue

Grant receipts still remain a significant funding source for the capital programme over the medium-term. The borrowing capacity of PLM has essentially reached its limits and going forward borrowing limits will remain constant.

Internally generated funds consist of a mixture between surpluses generated on the operating statement of financial performance and cash backed reserves. In determining the credibility of this funding source it becomes necessary to review the cash flow budget as well as the cash backed reserves and accumulated funds reconciliation, as discussed below. The main contributing factor to the escalation of 100 percent spending is owing to the fact that PLM budget for capital spending on a year to year basis is funded by conditional grants.

2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understanding for councillors and management. Some specific features include:

Clear separation of capital and operating receipts from government also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words the actual collection rate of billed revenue; and

Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 20 (Table A7) – Budgeted Cash flow statement

FS195 Phumelela - Table A7 Budgeted Cash Flows

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates, penalties & collection charges		17 404	7 799	4 611	7 886	7 802	7 802	–	16 870	17 865	18 866
Service charges		21 748	25 030	14 785	26 622	27 755	27 755	–	40 272	42 648	45 036
Other revenue		9 372	727	1 071	4 507	2 042	2 042	–	2 631	2 688	2 872
Government - operating	1	49 087	61 339	59 852	63 099	62 266	62 266	–	64 898	61 992	61 117
Government - capital	1	27 219	57 656	50 563	67 006	47 006	47 006	–	48 067	53 574	60 750
Interest		896	672	546	1 117	1 117	1 117	–	4 454	4 717	4 981
Dividends		–	–	–	–	–	–	–	–	–	–
Payments											
Suppliers and employees		(96 178)	(97 061)	(71 762)	(106 913)	(111 822)	(111 822)	–	(130 533)	(130 668)	(132 014)
Finance charges		(1 187)	(2 027)	(2 862)	(208)	–	–	–	(668)	(708)	(747)
Transfers and Grants	1	–	–	–	–	–	–	–	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		28 361	54 135	56 804	63 115	36 167	36 167	–	45 991	52 108	60 860
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Decrease (Increase) in non-current debtors		–	–	–	–	–	–	–	–	–	–
Decrease (increase) other non-current receivables		–	–	–	–	–	–	–	–	–	–
Decrease (increase) in non-current investments		–	–	–	–	–	–	–	–	–	–
Payments											
Capital assets		(24 695)	(64 551)	(49 896)	(70 746)	(48 246)	(48 246)	–	(48 067)	(53 574)	(60 750)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(24 695)	(64 551)	(49 896)	(70 746)	(48 246)	(48 246)	–	(48 067)	(53 574)	(60 750)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		–	–	–	–	–	–	–	–	–	–
Borrowing long term/refinancing		–	–	–	–	–	–	–	–	–	–
Increase (decrease) in consumer deposits		–	–	–	–	–	–	–	–	–	–
Payments											
Repayment of borrowing		(427)	2 600	(1 204)	–	–	–	–	–	–	–
NET CASH FROM/(USED) FINANCING ACTIVITIES		(427)	2 600	(1 204)	–	–	–	–	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD		3 239	(7 816)	5 704	(7 631)	(12 079)	(12 079)	–	(2 076)	(1 466)	110
Cash/cash equivalents at the year begin:	2	3 333	6 571	(1 245)	1 600	4 264	4 264	–	4 264	2 188	722
Cash/cash equivalents at the year end:	2	6 571	(1 245)	4 459	(6 030)	(7 815)	(7 815)	–	2 188	722	832

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".

- Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the tabled 2015/2016 MTREF is funded owing to the realised surplus.
- As part of the budgeting and planning guidelines that informed the compilation of the 2015/16 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

2.6.5 Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA.

Table 22 – Funding compliance measurement

FS195 Phumelela Supporting Table SA10 Funding measurement

Description	MFMA section	Ref	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
High Level Outcome of Funding Compliance												
Total Operating Revenue			95 391	94 951	102 590	109 886	111 879	111 879	–	150 534	152 549	156 790
Total Operating Expenditure			125 255	150 053	149 573	107 121	111 871	111 871	–	149 954	161 373	154 601
Surplus/(Deficit) Budgeted Operating Statement			(29 863)	(55 102)	(46 983)	2 765	9	9	–	580	(8 824)	2 189
Surplus/(Deficit) Considering Reserves and Cash Backing			(29 670)	(58 036)	(90 219)	9 846	8 482	8 482	–	15 292	16 268	19 293
MTREF Funded (1) / Unfunded (0)	15	0	0	0	0	1	1	1	1	1	1	1
MTREF Funded ✓ / Unfunded ✗	15	✗	✗	✗	✗	✓	✓	✓	✓	✓	✓	✓

2.7 Annual budgets and SDBIPs – internal departments

The SDBIPs for the different departments will in terms of section 53(1)(c)(ii) of the MFMA be tabled and approved by the mayor within 28 days after the approval of the annual budget. Therefore, at the time when this budget was adopted the SDBIP was yet to be approved.

2.8 Contracts having future budgetary implications

In terms of the PLM's Supply Chain Management Policy, no contracts are awarded beyond the medium term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

PART 2 : SUPPORTING DOCUMENTATION

2.9 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

2.9.1 In-year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the PLM's website.

2.9.2 Internship programme

The PLM is participating in the Municipal Financial Management Internship programme and has employed eight interns undergoing training in various divisions of the Financial Services Department. All the previous interns have been appointed permanently with effect from March 2013. Since the introduction of the Internship programme the PLM has successfully employed and trained ten interns through this programme and a majority of them were appointed either in the PLM and other institutions such as KPMG, Anglo American and municipalities such as Lekwa Local Municipality and Thabo Mofutsanyana District municipality.

2.9.3 Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

2.9.4 Audit Committee

PLM is currently using a shared district Audit Committee but it is in the process of establishing its own Audit Committee and interviews will be held with the Audit Committee candidates.

2.9.5 Service Delivery and Implementation Budget Plan

The detailed SDBIP document is at a draft stage and will be finalised after approval of the 2015/16 MTREF in May 2015 directly aligned and informed by the 2014/15 MTREF.

2.9.6 Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

2.9.7 MFMA Training

Current Interns are busy undergoing the MFMA training module in electronic format, and have been registered for the Municipal Finance Management Programme. Nine officials of the municipality have undergone the Municipal Finance Management Programme and are awaiting results.

2.9.8 Policies

All Phumelela Local Municipality's developed and reviewed policies are aligned to government legislations and regulations as gazetted. Any amendments to our policies will not deviate from gazetted legislations and regulations.

2.10 Municipal manager's quality certificate

I, municipal manager of Phumelela Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _____

Municipal manager of Phumelela Local Municipality (FS195)

Signature _____

Date _____